

KENTUCKY ECONOMIC INDICATORS

March Indicators as of May 24, 2004

KY Composite Index of Leading Indicators increased 6.6 percent for March.

- The Leading Index has increased in ten of the last eleven months.
- The Leading Index rose by 2.7 percent over the same month last year.
- All five component indicators were positive.
 - + KY Labor Intensity Index increased 0.2 percent.
 - + The US Leading Index increased 9.8 percent.
 - + The Index of KY Initial Claims increased 12.2 percent.
 - + US Retail Sales increased 26.2 percent.
 - + Louisville Help Wanted Index increased by 1 points to 56.

The component weights for March are 49.60, 23.52, 14.73, 10.44, and 1.70 respectively.

KY Composite Index of Coincident Indicators decreased 0.1 percent for March.

- Ten consecutive positive months end for the Coincident Index.
- Same-month-last-year growth was positive for the eighth consecutive month at 1.9 percent.
- Component indicators were mixed losers over gainers 2:1.
 - KY Total Nonagricultural Employment decreased 1.1 percent.
 - US Industrial Production Index decreased 1.2 percent.
 - + US Personal Income Less Transfers increased 2.1 percent.

The component weights for March are 31.49, 29.45, and 28.55 respectively.

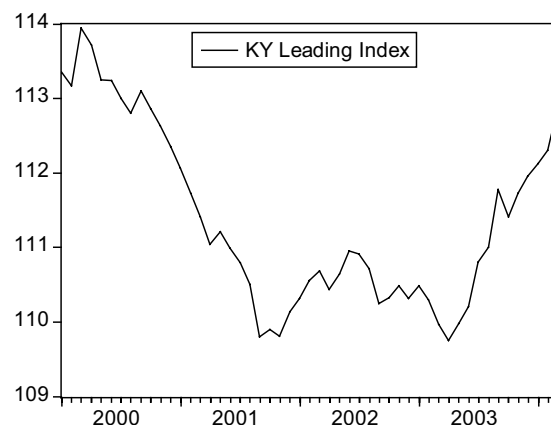
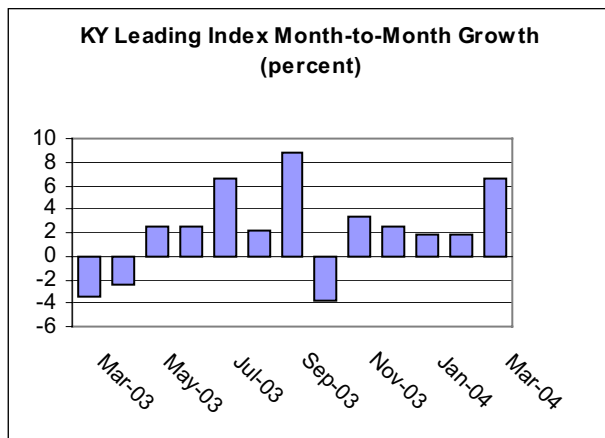
The Leading Index has now recovered 74.8 percent of the total losses incurred during the 2001 recession. The recovery of the Leading Index has followed a W-shaped pattern, similar to the pattern of the dual recessions of the early 1980s but less pronounced. The 2001 recession has been officially identified as one recession, not two as in the early 1980s. In general, recessions are not recorded on a per state basis. And even if they were, the W-shaped nature of the Kentucky recovery still may not have satisfied the rigorous requirements necessary to be deemed a new business cycle. But now the Index seems to be back in a solid expansion phase, with all five index components positive for March.

All five Leading Index components are improving. By far the most unaffected by the recession is Retail Sales. During the 2001-to-2003 period Retail Sales hardly slowed down at all. Retail Sales increased by 12.5 percent over that period. That defiant pace has increased during the first quarter, reaching a new all-time high of \$333.4 billion (fixed 1984 dollars). In the first quarter of 2004 alone, Retail Sales have increased a net 3.4 percent.

The Kentucky Labor Intensity Index has finally rebounded. The Index has increased by nearly one percent since June 2003, which is substantial considering that the series declined nearly every month for almost three years.

The Kentucky Initial Claims Index has been quite erratic over the past 3 years as one might expect. Firms are reluctant to higher new workers or rehire layoffs until they see clear signs of sustained economic recovery. Until then, it is easier for firms to alter their capital and investment options or hire temporary workers. This leads to short term volatility in the unemployment insurance market. During this recession we saw some unusual developments, like high sustained worker productivity and high retail sales throughout the recession, which most certainly added to employers' reluctance to hire/rehire.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the *University of Kentucky Center for Business and Economic Research Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.state.ky.us.

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SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	2003												2004		
	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR		
KY Leading Index (1992=100)	110.0	109.7	110.0	110.2	110.8	111.0	111.8	111.4	111.7	112.0	112.1	112.3	112.9		
% Chg Previous Month SAAR	-3.5	-2.4	2.6	2.6	6.6	2.2	8.7	-3.8	3.4	2.4	1.9	1.9	6.6		
% Chg Same Month Last Year	-0.6	-0.6	-0.6	-0.7	-0.1	0.3	1.4	1.0	1.1	1.5	1.5	1.8	2.7		
KY Coincident Index (1992=100)	127.7	127.6	127.7	127.7	128.0	128.1	128.5	128.8	129.4	129.5	130.0	130.2	130.2		
% Chg Previous Month SAAR	-1.8	-1.5	1.4	0.0	2.6	1.5	3.2	3.0	6.1	0.9	4.1	2.4	-0.1		
% Chg Same Month Last Year	0.0	-0.2	-0.2	-0.5	-0.2	0.0	0.4	0.6	1.1	1.4	1.6	1.8	1.9		
KY Nonag Employment (000s)	1,782.4	1,780.8	1,780.7	1,780.2	1,775.3	1,779.6	1,782.7	1,785.2	1,786.4	1,785.7	1,793.4	1,788.2	1,786.6		
% Chg Previous Month SAAR	1.2	-1.1	-0.1	-0.3	-3.3	2.9	2.1	1.7	0.8	-0.5	5.3	-3.4	-1.1		
% Chg Same Month Last Year	-0.4	-0.3	-0.3	-0.4	-0.9	-0.4	-0.2	-0.2	-0.2	-0.2	0.4	0.4	0.2		
KY Mfg Employment (000s)	267.4	265.9	265.6	265.2	264.9	265.2	265.1	266.2	265.8	266.1	266.9	265.8	265.3		
% Chg Previous Month SAAR	-6.9	-6.5	-1.3	-1.8	-1.3	1.4	-0.5	5.1	-1.8	1.4	3.7	-4.8	-2.2		
% Chg Same Month Last Year	-4.0	-4.3	-4.0	-3.9	-3.5	-3.0	-2.3	-2.3	-2.0	-1.5	-1.0	-1.2	-0.8		
KY Unemployment Rate (%)	6.2	6.3	6.2	6.3	6.6	6.2	6.2	6.0	6.0	6.0	5.3	5.3	5.5		
KY Index of Initial UI Claims	98.9	98.7	99.2	99.3	99.8	100.3	100.2	101.2	101.2	101.3	101.7	101.4	102.4		
% Chg Previous Month SAAR	-9.7	-1.8	6.4	0.7	6.3	5.4	-1.2	13.2	0.5	1.1	5.1	-4.1	12.2		
% Chg Same Month Last Year	-0.8	-0.4	-0.6	-1.1	-1.0	-0.2	0.7	1.6	0.8	2.6	1.8	1.7	3.5		
KY Labor Intensity Index (1992=100)	103.9	104.0	104.0	103.9	104.2	104.3	104.4	104.4	104.7	104.4	104.8	104.7	104.7		
% Chg Previous Month SAAR	-6.8	0.7	-0.5	-0.8	4.0	0.8	1.1	-0.1	3.5	-3.2	4.9	-1.1	0.2		
% Chg Same Month Last Year	-1.3	-1.1	-1.1	-1.2	-0.9	-0.8	-0.7	-0.7	-0.1	-0.6	0.1	0.2	0.8		
Louisville HWI (1992=100)	58.0	50.0	47.0	49.0	50.0	47.0	73.0	50.0	49.0	57.0	50.0	55.0	56.0		
% Chg Previous Month SAAR	-33.4	-83.2	-52.4	64.9	27.4	-52.4	19,610.6	-98.9	-21.5	514.0	-79.2	213.8	24.1		
% Chg Same Month Last Year	-13.4	-18.0	-28.8	-31.0	-21.9	-21.7	25.9	-13.8	-14.0	7.5	-9.1	-8.3	-3.4		
GF Total Tax Receipts (\$mil)	438.0	696.4	416.4	617.6	470.9	459.6	628.9	530.4	531.1	676.1	583.1	462.6	509.3		
% Chg Same Month Last Year	1.8	-0.5	-3.1	1.6	8.2	-5.9	-4.1	-7.1	0.7	5.3	-8.2	10.2	16.3		
GF Sales & Use Receipts (\$mil)	165.6	199.7	190.2	191.6	208.2	197.3	200.4	213.3	199.0	207.9	249.5	164.0	185.0		
% Chg Same Month Last Year	-1.3	0.1	0.3	0.1	3.2	-14.7	-0.4	-1.9	5.3	8.0	6.9	8.9	11.7		
GF Income Tax Receipts (\$mil)	117.0	354.4	158.2	267.9	206.6	224.2	273.0	228.1	224.0	247.6	207.2	217.3	142.0		
% Chg Same Month Last Year	-0.6	-5.8	1.8	-1.5	10.1	10.0	-2.2	-4.0	3.2	8.6	-28.8	6.1	21.4		

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2003												2004		
	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR		
US Leading Index (1982=100)	110.4	110.5	111.6	112.0	112.8	113.2	113.3	113.9	114.2	114.5	114.9	114.9	115.8		
% Chg Previous Month SAAR	-2.1	1.1	12.6	4.4	8.9	4.3	1.1	6.5	3.2	3.2	4.3	0.0	9.8		
% Chg Same Month Last Year	-0.6	-0.3	0.2	0.8	1.6	2.2	2.7	3.3	2.9	3.1	3.5	3.9	4.9		
US Coincident Index (1992=100)	114.2	114.1	114.3	114.4	114.7	114.7	114.9	115.2	115.6	115.8	115.9	116.2	116.4		
% Chg Previous Month SAAR	0.0	-1.0	2.1	1.1	3.2	0.0	2.1	3.2	4.2	2.1	1.0	3.2	2.1		
% Chg Same Month Last Year	0.2	-0.1	0.0	-0.1	0.3	0.3	0.5	0.8	1.0	1.4	1.3	1.8	1.9		
Nonag Employment (mil)	129.9	129.9	129.9	129.9	129.8	129.8	129.9	129.9	130.0	130.0	130.2	130.3	130.6		
% Chg Previous Month SAAR	-1.0	-0.2	-0.3	-0.1	-0.4	-0.2	0.6	0.8	0.8	0.1	1.5	0.8	3.1		
% Chg Same Month Last Year	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.2	0.0	0.0	0.2	0.5		
Unemployment Rate (%)	5.8	6.0	6.1	6.3	6.2	6.1	6.1	6.0	5.9	5.7	5.6	5.6	5.7		
Initial Claims for UI (000s)	420.2	434.9	423.7	418.9	399.5	400.4	399.5	382.2	368.7	362.5	355.3	355.5	340.4		
% Chg Previous Month SAAR	32.0	51.1	-26.9	-12.8	-43.4	2.7	-2.7	-41.2	-35.0	-18.4	-21.4	0.7	-40.6		
% Chg Same Month Last Year	0.7	2.3	5.3	8.2	3.9	1.2	-3.5	-7.3	-6.4	-13.1	-10.1	-13.4	-19.0		
Industrial Production Index	110.8	110.1	110.0	110.0	110.8	110.9	111.5	111.8	112.9	113.1	113.8	114.6	114.5		
% Chg Previous Month SAAR	-8.4	-7.1	-0.8	-0.4	9.6	0.3	7.1	3.1	12.3	2.9	7.3	9.2	-1.2		
% Chg Same Month Last Year	0.4	-0.6	-0.8	-1.5	-0.6	-0.6	0.1	0.7	1.5	2.3	2.4	2.7	3.4		
Personal Inc. Less Trans. (bil 92\$)	7,354.6	7,375.4	7,412.0	7,416.6	7,435.8	7,446.3	7,457.1	7,489.9	7,539.8	7,544.4	7,551.2	7,570.9	7,583.9		
% Chg Previous Month SAAR	1.4	3.4	6.1	0.7	3.2	1.7	1.8	5.4	8.3	0.7	1.1	3.2	2.1		
% Chg Same Month Last Year	-0.1	0.2	0.4	0.2	0.8	1.1	1.4	1.7	2.4	2.7	2.8	3.1	3.1		
CPI, All Urban (1982-84=100)	184.0	183.4	183.3	183.5	183.8	184.5	185.1	184.9	184.6	184.9	185.8	186.3	187.2		
% Chg Previous Month SAAR	5.4	-3.8	-0.7	1.3	2.0	4.7	4.0	-1.3	-1.9	2.0	6.0	3.3	6.0		
% Chg Same Month Last Year	3.1	2.2	2.1	2.1	2.1	2.2	2.3	2.0	1.8	1.8	2.0	1.7	1.7		
Retail Sales (Bil. 84\$)	307.3	307.4	308.6	311.5	315.4	318.9	317.5	318.1	321.8	322.3	323.9	327.0	333.4		
% Chg Previous Month SAAR	26.3	0.5	5.0	11.8	15.8	14.5	-5.4	2.3	15.0	2.0	6.0	12.0	26.2		
% Chg Same Month Last Year	4.8	3.3	5.1	5.0	5.3	6.1	7.0	6.6	7.3	6.4	6.3	8.5	8.5		
Manufacturing & Trade Sales (000s)	852.8	850.2	857.4	867.0	879.6	874.5	882.3	886.0	891.2	898.3	896.0	898.2	*900.2		
% Chg Previous Month SAAR	15.7	-3.6	10.6	14.3	18.9	-6.7	11.3	5.1	7.3	10.0	-3.0	2.9	2.8		
% Chg Same Month Last Year	2.1	0.4	1.4	2.3	3.0	2.3	4.2	4.2	4.3	5.4	4.3	6.6	5.6		
Consumer Expectations (UMich; NSA; 1966=100)	69.6	79.3	91.4	86.4	83.7	82.5	80.8	83.0	88.1	89.8	100.1	88.5	88.8		
% Chg Previous Month AR	-5.0	378.6	449.6	-49.1	-31.7	-15.9	-22.1	38.0	104.5	25.8	268.0	-77.2	4.1		
% Chg Same Month Last Year	-24.9	-11.0	-1.4	-1.7	3.3	2.4	1.1	13.5	12.2	11.1	37.5	26.6	27.6		
Ave. Prime Interest Rate (%; NSA)	4.25	4.25	4.25	4.22	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00		
* ARIMA estimation															